

Holomua

Retirees & Active Members

July/August/September 2014



Employees' Retirement System
of the State of Hawaii



ERS assets rise to all-time high

The Employees' Retirement System (ERS) ended the 2014 fiscal year with its best return since 2011 as assets rose to an all-time high of \$14.1 billion.

During the August 25, 2014 Board of Trustees meeting, Pension Consulting Alliance, Inc., investment consultants for the ERS, reported that the fund posted a 4.4 percent investment gain in the April - June quarter and a 12-month return of 17.4 percent for the fiscal year ending June 30, 2014.

"The strong performance can be attributed to allocation weightings to domestic U.S. equity managers and to individual fund managers' returns in both U.S. equities and fixed income," ERS Chief Investment Officer Vijoy "Paul" Chattergy said. "Strong portfolio growth over the last 24 months is having a positive effect for the ERS attaining long-term return objectives on its investments."

TRACKING THE MONEY

The state Employees' Retirement System pension fund rose in the fiscal year ended June 30, 2014.

FISCAL YEAR*	GAIN/ LOSS	TOTAL ASSETS	FISCAL YEAR*	GAIN/ LOSS	TOTAL ASSETS
2014	+17.4%*	\$14.1B	2008	-3.4%	\$10.8B
2013	+12.0%	\$12.3B	2007	+17.7%	\$11.5B
2012	-0.6%	\$11.3B	2006	+11.1%	\$9.9B
2011	+20.7%	\$11.6B	2005	+11.3%	\$9.2B
2010	+11.7%	\$9.8B	2004	+15.8%	\$8.6B
2009	-18.7%	\$8.8B	2003	+3.0%	\$7.7B

B = billions

*Includes 4.4% gain in the fourth quarter ended June 30, 2014.

Source: State of Hawaii Employees' Retirement System

STAR-ADVERTISER

It was the second fiscal year in a row that the ERS fund achieved a double-digit return, after gaining 12 percent in the fiscal year ended June 30, 2013. The portfolio increased by \$2.8 billion during the past two fiscal years. As evidenced in the attached "Tracking the Money" chart provided by Dave Segal of the *Honolulu Star-Advertiser*, the ERS has suffered highs and lows over the last 12 years.

The ERS is in the early stages of playing catch-up with its future pension obligations after being only 60 percent funded – a shortfall of \$8.49 billion – as of June 30, 2013. Pension reforms – including reducing benefits, raising benefit requirements and increasing contributions for

new employees after June 30, 2012 – were implemented in the past three years to help bring down the unfunded liability. The unfunded liability for the fiscal year that just ended will not be released until December, and ERS Executive Director Wes Machida anticipates that it should be lower due to this fiscal year's strong results.

Employee contributions, employer contributions and investment returns keep a defined benefit plan like the ERS in balance. When the ERS pays out more than it brings in or is able to generate through contributions and investments, the fund is under funded. According to Gabriel Roeder Smith & Co., the actuaries for the ERS, if investment returns hit their targets, if State and County payrolls continue on schedule with the associated employer contributions, and if mortality rates are in line with expectations, the ERS is expected to be 100 percent funded by 2041.

Last quarter, the ERS' 4.4 percent return beat the 3.9 percent return of 67 median public funds with assets greater than \$1 billion. The ERS return also exceeded its 3.9 percent benchmark, which comprises indexes invested in a similar way to ERS' portfolio managers. Over the past 12 months, the ERS fund beat the median public fund – 17.4 percent versus 17.1 percent – and just trailed its benchmark, 17.4 percent versus 17.5 percent.

See ERS Assets on page 3



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Wes' Corner

We are pleased to report that the ERS had another good year in the investment markets, where investment returns exceeded 17% for the 2014 fiscal year with ERS assets at \$14.1 billion. This definitely helps with funding ERS' pension liabilities for our 118,000 members, retirees, and beneficiaries. Investments are also needed to make pension benefit payments, which totaled more than \$1.1 billion last fiscal year. Over the past ten years, about 20% of the pension benefit payments were funded by investments, and projections estimate that more than 28% of pension benefit payments will come from investments over the next ten years. It is estimated that a larger percentage of investments will be needed beyond the next ten years to pay out pension benefits.

As we get closer to the end of the 2014 calendar year, we are preparing for another legislative session in which we are hoping for an outcome that will continue to improve our funded status which was last reported as of June 30, 2013 at 60%, and improve on provisions to make it more equitable for all employee groups.

For the past several years, we have been averaging around 2,000 retirements per year. However for 2014, 985 members retired during the eight-month period from January through August 2014. This seems to indicate that there will be a drop in retirements for 2014 compared with the last several years. Even though you may not retire in 2014, it is always a good idea to visit our ERS website at ers.ehawaii.gov to get important information about the ERS and your retirement benefits. There were 30,153 page views on the ERS website, including over 8,300 views of our benefits calculator, followed by planning for retirement and active member sections getting more than 1,000 views each for the month of August 2014.

We expect to increase our communications effort throughout 2015. Our plans include providing educational videos on our website that cover a wide range of topics such as new employee orientation, leaving State or County government, member/retiree perspectives, applying for retirement, taxes, investments, Neighbor Island offices, and others. Until the next newsletter, stay safe and let us know if we can assist you with your retirement needs.

Aloha,

Wes

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou.

In this issue, I am thinking about the growing team we have in the Investment Office. The ERS Investment Office staff now includes Aaron Au, Illiquid Markets Officer, responsible for private markets such as real estate and private equity; Anthony "Tony" Goo, Liquid Markets Officer, responsible for public markets such as stocks and bonds; Howard Hodel, Risk Management Officer, responsible for portfolio and underlying risks oversight; and the two Investment Specialists, Andrew Chen and Ian Wetzel, who work as generalists with overlapping responsibilities in market coverage.

The additional resources for the ERS Investment Office is a testament to the Board of Trustees' understanding that with the increasing complexity of financial markets and the future structure of the ERS investment portfolio, more professionals trained in finance and investment management are essential to ensure that assets can be managed in a way to maximize the probability that returns will be at a pace to help sustain the pension plan into the future.

The team assembled has vast experience with financial management and doing business in Hawaii. It is mostly a "locally grown" team. Most have grown up in, or dedicated much of their professional career to being part of, our island community. The ERS is fortunate to attract such talent, and can expect that they will each make significant contributions to generating optimal investment returns while finding ways to save on costs along the way.

At a juncture like this, I am reminded of the best advice I received when working as a financial analyst for a Japanese asset management firm in Asia. My boss, who also has "local boy" ties to the islands, advised that to do outstanding work, "don't think like an analyst, think like a portfolio manager." For some, this message might be interpreted as "think what your boss wants you to say or do." In certain work environments, this might lead to becoming a "yes-person" or creating a risk for groupthink. It does not have this meaning in a properly functioning investment group, and in an upcoming issue of *Holomua* I'll explain a bit more what I mean by that.

International equities led all asset allocations last quarter with a 5 percent return and finished the fiscal year up 20.8 percent. U.S. equities, which represented 36.2 percent of the total portfolio at the end of the quarter, also were strong as they rose 4.3 percent in the quarter and 26.3 percent for the year. Total fixed income, which includes domestic and international holdings, was up 2.2 percent for the quarter and 6.4 percent for the year.

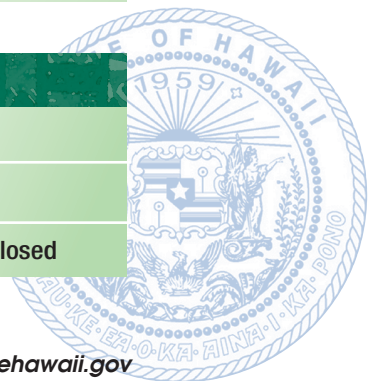
Chattergy said the ERS trustees continue to invest cautiously due to global unrest, European woes and a likely increase in interest rates. "While geopolitical tensions have dominated the news, the prospect of the European Community headed into a recession, or worse, a deflationary environment, coupled with aggressive Federal Reserve tightening of interest rates, represents one of several potential scenarios for a significant drag on future performance," he said. "The ERS remains cautious in making investments and continues to explore more advanced risk management policies to safeguard assets and generate reasonable returns. We expect markets to be more challenging going forward."

Schedule of upcoming events for 2014

October 2014		
2 (Thursday)	Kauai Basic Information	ERS Kauai
2, 6, 7, 8, 9, 27, 28, 29, 30, 31	Filing Sessions	ERS Oahu
16 (Thursday)	Brown Bag Session (Hybrid)	ERS Oahu
20 (Monday)	Board of Trustees Meeting	Oahu
22 (Wednesday)	Brown Bag Session (Contributory)	ERS Oahu

November 2014		
4 (Tuesday)	General Election Day	All offices closed
6 (Thursday)	Brown Bag Session (Noncontributory)	ERS Oahu
7, 12, 14, 19, 21, 24, 25, 26, 28	Filing Sessions	ERS Oahu
11 (Tuesday)	Veteran's Day	All offices closed
13 (Thursday)	Brown Bag Session (Hybrid)	ERS Oahu
17 (Monday)	Board of Trustees Meeting	Oahu
27 (Thursday)	Thanksgiving	All offices closed

December 2014		
1 (Monday)	Filing Sessions	ERS Oahu
8 (Monday)	Board of Trustees Meeting	Oahu
25 (Thursday)	Christmas	All offices closed



Leaving State or County Service?

Due to the imminent change of the Governor's administration in December, there are approximately 165 State employees who may be terminating their employment this year.

This should be a reminder to all members of the Employees' Retirement System (ERS) to be aware of your vested status with the ERS and to know your options should you decide to leave State or County employment. If you have accrued the minimum service credits to be eligible for a future ERS retirement benefit, you are considered a vested member. Eligibility requirements for retirement are based on your retirement plan*, your membership date with the ERS, your total credited service and your age.

Brochures on leaving government service are also available on our website at <http://ers.ehawaii.gov>.

If you terminate as a vested member, you are entitled to a lifetime pension upon reaching the normal retirement age and applying for retirement. To retain your vested status as a Contributory or Hybrid member, you must not take a refund of your contributions after termination. Leaving your contributions with the ERS will also ensure return to work options after termination. Should you return to State or County service after termination, your vested status will determine your re-enrollment in the ERS.

Below is a brief summary of retirement plans and eligibility:

Plans	Membership Date	Minimum Service	Minimum Age	Return to Service Vested (Contributions with ERS)	Return to Service Non-vested (Contributions with ERS)
Hybrid	Prior to 7/1/2012	5 Years or 30 Years	62 55	Hybrid Plan – Retain membership date and all service credit. Noncontributory service that was not converted to Hybrid will remain Noncontributory service.	Hybrid Plan – Must return within 4 calendar years to retain membership date. Otherwise, enrolled with new membership date and requirements. All service retained.
Hybrid	After 6/30/2012	10 Years or 30 Years	65 60		
Noncontributory	After 6/30/1984 (and did not elect to switch to Hybrid Plan)	10 Years or 30 Years (Note: if you terminate prior to age 62 with less than 20 years of service, your earliest retirement eligibility will be at age 65)	62 55	Hybrid Plan – Retain membership date and all service credited as Noncontributory service.	Hybrid Plan – Must return within 1 calendar year to retain membership date and service. Otherwise, enrolled with new membership date and requirements; restoration of forfeited service as Noncontributory on a month-for-month basis.
Contributory (General Employees)	Prior to 7/1/1984 (and did not elect to switch to Noncontributory or Hybrid Plan)	5 Years	55	Contributory Plan – Retain membership date and all service credit.	Hybrid Plan – Must return within 4 calendar years to retain membership date and service. Otherwise, enrolled with new membership date and requirements; restoration of forfeited service as Noncontributory on a month-for-month basis.

Again, this is only a summary of basic information. As each individual's situation is unique, you should contact the ERS to discuss your situation to make informed decisions on retirement benefits, continuing or terminating from State or County service, and whether you should leave your retirement contributions with the ERS or take a refund of your contributions. In addition, the return to work requirements for all the retirement plans and the new benefit structure increases the complexity of this situation, so it's imperative that you contact our office at 586-1735 before terminating service.

* There are Police Officers, Firefighters and certain public safety officers with special requirements – please refer to ers.ehawaii.gov for category-specific information.

For Active Members

2014 Brown Bag Sessions – Tips & Tools to Help You Plan Your Retirement

To provide our new and mid-career Oahu members with retirement information so they can plan and make wise retirement decisions in the future, the ERS will continue to conduct our Brown Bag sessions.

At these sessions, members are given the opportunity to ask any questions they might have, since the value of these sessions is the exchange of questions and answers. Feel free to visit our website at <http://ers.ehawaii.gov> for more retirement information.

Below are our final scheduled sessions for 2014:

Dates	Retirement Plan	Time	Location
October 16	Hybrid	12:15 pm to 12:45 pm	City Financial Tower-ERS 201 Merchant Street Suite 1400
October 22	Contributory		
November 6	Noncontributory		
November 13	Hybrid		

To register, please call our office at 586-1735 at least one week prior to the scheduled workshop. Each session is limited to thirty-five members. On the day of the session, please report to the 14th floor in our building and staff will accompany you to the conference room. Feel free to bring your lunch, too. Limited parking is available in our building.

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For Retirees

Don't be the victim of "Phishing"

Recently, an ERS employee sent this warning to other ERS employees:

“I got a call last night from someone posing as a technician from a leading software company claiming my computer has viruses and that I need his help to fix them. He was a fake! No one should call you out of the blue and tell you your computer has viruses. Please be extra vigilant and contact help desk if you see anything suspicious on your computer.”

“Phishing” is the fraudulent attempt to acquire sensitive personal information such as social security numbers, usernames, passwords, account numbers, credit card details or, sometimes, cash by masquerading as a trustworthy entity (such as banks, payment processors, and phone, utility, cable or computer companies).

Criminals often target seniors because seniors may be new to technology and tend to rely on family or friends as their “tech support.”

You may not have a help desk to contact if you are suspicious of a phone call or email message you received, but you should be vigilant and aware of any possible phone or computer “phishing” scam. If you have received an unsolicited phone call, email message or other form of contact, never release any information!

Unfortunately, it is possible that one of the trustworthy individuals criminals may try to impersonate might be an ERS employee.

Please be assured that **ERS** will never send unsolicited email messages or make unsolicited phone calls asking for personal information from our members. If you should contact our office for information, we may require you to provide specific information for verification purposes; however, we will never contact you to gather or verify personal information.

Should you receive a suspicious email or phone call from the ERS or a person saying he/she is an ERS employee, get as much information about the email or call, hang up immediately, and contact our office directly at (808) 586-1735 or toll free at 1 (888) 659-0708 to let us know.

For retirants considering returning to State or County employment

If you are an ERS retirant considering returning to State or County employment, carefully review the following:

Effective January 1, 2011, all ERS retirees employed by the State or County must meet the following requirements under Section 88-9 (Act 179, SLH 2010), Hawaii Revised Statutes:

- (1) A six (6) consecutive calendar month break in State or County employment prior to the first day of employment if the retiree is employed in a position that is excluded from ERS membership. Examples include: short term employment of less than 50% full time equivalence (FTE), temporary employment of 3 months or 90 days or less, part-time positions of less than 20 hours per week, substitute teaching positions, etc. The 6 month break could have occurred at any time after your retirement date

OR

- (2) A twelve (12) consecutive calendar month break in State or County employment prior to the first day of employment if the retiree is employed in a position specifically identified as a labor shortage or difficult-to-fill position.

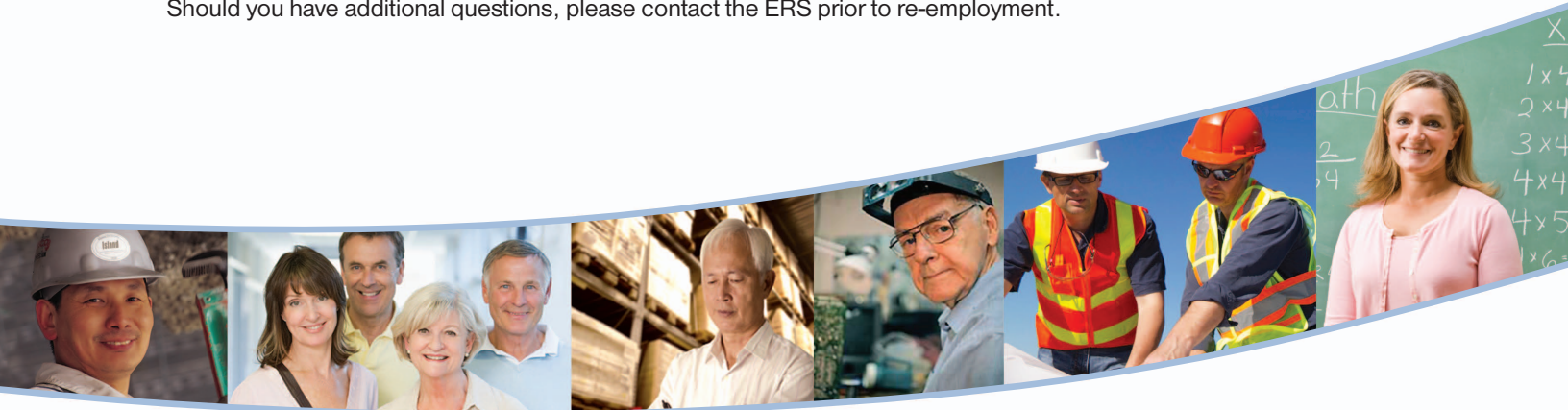
State employers include, but are not limited to, the State executive branch, the University of Hawaii, the Research Corporation of the University of Hawaii, the Hawaii Health Systems Corporation, the Department of Education, the Office of Hawaiian Affairs, the Judiciary, and the Legislative branch of the State. County employers include the City and County of Honolulu and the Counties of Hawaii, Kauai, and Maui. In addition, the above section prohibits the employment of a retirant if the employer agreed, prior to the retirant's retirement, to employ the retirant after retirement.

Please be advised that the law does not prohibit the employment of retirants who are re-enrolled as active ERS members when they return to State or County employment. With these types of employment, retirants will be re-enrolled in their previous membership plan and pension and other retirement benefits will be suspended until the member retires again. Additional benefits accrued under re-employment will be "tacked-on" to the previous pension.

The purpose of the above statute is to protect and preserve the tax exempt status of the ERS by imposing remedies for the ERS against the employer and retirant if the retirant is employed in violation of the statutes and Internal Revenue Code of 1986. Remedies would include the retirant's reimbursement of any pension paid during this period, including interest.

Before you accept re-employment with a State or County employer, clarify the type of position for which you are applying and discuss the re-employment requirements and consequences with your personnel officer. Retirants are required to complete the "ERS-209 – Certification of Compliance for Employment of a Retirant" form with their employer upon re-employment.

Should you have additional questions, please contact the ERS prior to re-employment.



News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

Active Employees

The EUTF Administrative Rules were amended and adopted by the Hawaii Employer-Union Health Benefits Trust Fund Board of Trustees at its August 4, 2014 meeting. Some of the changes include:

- Voluntary Cancellation - Voluntary Cancellations are no longer allowed, except during open enrollment.
- Continuation of Coverage (Transfer of Employment) - When an employee transfers employment from one public employer to another, (i.e., State to county or county to State) within the same pay period or the next consecutive pay period, he/she may make changes to their plans, (change from Kaiser to HMSA, HMSA to Kaiser, etc.) including adding or dropping dependents and changing tiers (self to 2-party, 2-party to Family, etc.).
- Change in Enrollment Due to Changes in Marital, Partnership or Family Status - The Event date is the date on the Marriage or Civil Union Certificate. The event date was previously the date the personnel offices receives the EC-1/EC-1H Form.
- Adding a Newborn - EC-1/EC-1H must be submitted to your personnel office within 60 days from the date of birth. Previously, employees had 30 days to submit the EC-1/EC-1H.
- Enrollment or Changes in Enrollment Upon Retirement - Retirees have 60 days to enroll in the EUTF plans upon retirement or they must wait until the next open enrollment to enroll. Previously, there was no time limit.

EUTF will be providing personnel offices and employees with additional information during the months of August and September 2014. Please visit the EUTF website at www.eutf.hawaii.gov to view the latest version of the rules.

Retirees

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The Open Enrollment (OE) period for EUTF retiree health and life insurance plans will be from October 1 through October 31, 2014. Reference Guides are being mailed to retirees' home/ mailing address during the week of September 22, 2014. Be sure that EUTF has your current mailing address.

Medical

Effective January 1, 2015 Medicare retirees covered under Medicare Part A and Part B, may choose a new Medicare Advantage PPO medical plan provided by UnitedHealthcare (UHC). You have the option to enroll in the new plan by submitting the Form EC-2 during OE.

Dental

Effective January 1, 2015, for all EUTF retirees enrolled in the dental plan provided by HDS, the benefits have been enhanced as follows:

- Fluoride treatment is increased to twice per calendar year with coverage at 100% (through age 19).
- Implant benefit, once per tooth every five years, with coverage at 60%, is included.

The HSTAVB dental plan benefits have not changed.

Life Insurance

Effective January 1, 2015, the EUTF and HSTA VB life insurance plans will be insured by USABLE Life with an enhanced benefit amount of \$2,235. Beneficiary information on file with Royal State National will be forwarded to USABLE Life.

HSTA VB

There are no changes to the HSTA VB plans. HSTA VB refers to plans created for HSTA retirees who were enrolled in the HSTA VEBA plans prior to January 1, 2011 and have been continuously enrolled in HSTA VB retiree plans.

Note: The enrollment of HSTA VEBA members into the health plans created as a result of Judge Sakamoto's decision in the Gail Kono lawsuit was done to comply with that decision and not to create any constitutional or contractual right to the benefits provided by those plans. Please note that the State has appealed the decision and reserves the right to move former HSTA VEBA members into regular EUTF plans if that decision is overturned or modified.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please DO NOT contact the ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information at www.eutf.hawaii.gov.



Employees' Retirement System

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Scan the QR code with your smartphone
to directly access the ERS website.



Holomua

Retirees &
Active Members

July/August/September 2014



How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui, Molokai and Lanai, contact:

Maui Office, Phone: (808) 984-8181

Toll free: 1-800-984-2400, ext. 48181

Continental U.S. toll free to Oahu:
1-888-659-0708

201 Merchant Street, Ste. 1400
Hon, HI 96813-2980

<http://ers.ehawaii.gov>

Ask ERS

Answers to some frequently asked questions:

Q: Since I am leaving State (or County) service this year, what else do I need to consider pertaining to the ERS?

A: You will need to keep the ERS informed of your current address by simply sending any new address in writing to our office. Should you move after termination, please update your address to receive current communications and to continue receiving the *Holomua*. For Hybrid and Contributory members, your beneficiary designation must be kept current for the ERS to pay death benefits to your valid beneficiary(ies). The Form 1A is on our website at <http://ers.ehawaii.gov>. This form must be notarized prior to being mailed to our office. Notary service is available at all ERS offices.

Q: How do I schedule a counseling appointment since I plan to retire in December 2014?

A: For Oahu, you may contact our office at 586-1735 to schedule an appointment. Please refer to the ERS website under "Members > Retirement Planning" for the filing session dates and times available for your specific retirement date. For Hawaii, Kauai, Maui, Molokai and Lanai, please contact neighbor island offices directly (see the numbers to the left).

Q: As a retiree, how do I change my beneficiary due to a change to my situation?

A: You can re-designate another beneficiary(ies) provided you did not select a joint survivor plan upon retirement. Joint survivor plans are those in which your beneficiary will continue to receive a lifetime benefit from the ERS after your death; and for these options, the beneficiary cannot be changed. Please contact us for the EC&B Form 67 (Change in Designation of Beneficiary or Beneficiaries After Retirement) in order that we may review your selected option with you prior to any re-designation.